INSIGHT · DISCOURSE · ACTION

CDRC Digest

SEPTEMBER 2025 VOL.9 NO. 7

CDRC is a non-profit, independent Ethiopia-based policy institute engaged in research and analysis. The Centre looks at opportunities and key challenges in the Horn of Africa, and focuses on policy ideas on development, sustainable peace and security.

The CDRC Digest is the Centre's monthly publication, endeavoring to provide an African perspective on political, economic and social developments as well as mechanisms of sustaining peace and security in the Horn of Africa, the African continent and beyond. The publication is based on dialogue, rigorous research and analysis.

Contents

Page **1**

Ethiopia's Macroeconomic Reforms Amidst Failing Aid and Unabated Conflicts: Challenges, Opportunities, and the Way Forward

A monthly publication of the Centre for Dialogue, Research and Cooperation (CDRC), in partnership with the Royal Norwegian Embassy in Ethiopia

CDRC Digest Team:

Abdeta Dribssa Beyene, Ph.D (Executive Director)
Amb. Kasahun Dender (Deputy Executive Director)
Wegene Mengistu (Senior Researcher)
Yidnekachew Mitku Ph.D (Senior researcher)

Centre for Dialogue, Research and Cooperation
Ethio-China Friendship Avenue
Medina Tower 5th floor
Tel: +251 11 470 0370/73
Fax: +251 11 470 0359
Email: cdrc@cdrcethiopia.com
http://www.cdrcethiopia.org

Ethiopia's Macroeconomic Reforms Amidst Failing Aid and Unabated Conflicts: Challenges, Opportunities, and the Way Forward

Introduction

Over a year ago, Ethiopia embarked on a wide-ranging macroeconomic reform agenda through an arrangement with the International Monetary Fund (IMF). The reform package was designed to stabilize the economy, address structural imbalances, and create conditions for sustainable growth. Central elements of the reform include transitioning to a market-determined exchange rate, easing current account restrictions, and introducing a new interest-rate-based monetary policy framework. These measures represent a major departure from Ethiopia's long-standing state-led development model and move the country toward market liberalization, even if the state remains the most powerful and dominant player in the economy. As part of the agreement, Ethiopia committed to taking concrete measures on several fronts, including fiscal consolidation, exchange rate reform, liberalization of key sectors, and strengthening public financial management. In return, the IMF pledged to provide a $3.4 billion Extended Credit Facility (ECF), aimed at easing Ethiopia's balance of payments pressures, supporting critical imports, and providing a financial buffer for the government as it undertakes politically sensitive reforms. This arrangement was not only a financial lifeline but also a signal to other international partners and investors that Ethiopia was committed to a credible reform trajectory. Yet, the reforms are unfolding against a fragile backdrop of ongoing conflict, political instability, and humanitarian crises. The tension between reform ambitions and socio-political realities makes Ethiopia's path both promising and precarious.

The Ethiopian government maintains that the reform package holds the potential to resolve deeply entrenched structural economic challenges. These include the growing public debt burden, persistent inflation, widespread unemployment, slow structural transformation, and limited productivity and competitiveness across key sectors. By loosening state control and encouraging market mechanisms, policymakers argue that Ethiopia can build a more resilient economy. However, the IMF, in its July 15, 2025, report, while recognizing progress on meeting several reform benchmarks, warned of serious risks that threaten to undermine these efforts. Given the inherently disruptive nature of structural adjustment programs, it is critical to weigh both the opportunities they present and the risks they carry to assess whether they can truly deliver the intended transformation.

Structural Adjustment Programs (SAPs), which are important features of the policies of the Bretton Woods institutions, are typically associated with conditional lending frameworks designed to downsize the role of the state and promote economic governance standards based on the "Washington Consensus." Formulated and advanced by the IMF and the World Bank, these market-oriented programs emphasized fiscal discipline, liberalization of domestic markets, and openness to trade and investment. The intellectual foundations of these policies were heavily shaped by the University of Chicago's economics department, which promoted free markets, monetarism, and minimal state intervention as economic solutions that have universal applicability.

Inspired by the Washington Consensus, many governments in the Global South pursued such reforms, albeit often under pressure from international lenders. Between 1980 and 2000, numerous Sub-Saharan African countries entered structural adjustment arrangements in response to prolonged economic decline and financial crisis. Yet, rather than ushering in growth and stability, many of these economies continued to experience stagnation, worsening poverty, and heightened instability. SAPs were widely criticized for worsening inflation, driving unemployment, and imposing rigid one-size-fits-all policies that ignored local contexts. They also raised sovereignty concerns by forcing developing nations to adopt external models of economic management that were often ill-suited to their political, social, and developmental realities.

The debate over why SAPs underperformed in Africa remains unsettled. Analysts question whether the disappointing results were primarily due to incomplete and uneven implementation, fundamental flaws in the policy prescriptions themselves, or adverse external conditions. Today, Ethiopia faces a similarly daunting convergence of global shocks that complicate reform trajectories: the lingering effects of the COVID-19 pandemic, the Russia–Ukraine war, rising food and energy insecurity, surging inflation, climate change disruptions, mounting sovereign debt, and the heightened risk of global recession driven by geopolitical crises. These overlapping challenges place Ethiopian policymakers in uncharted waters, making reform both more urgent and more difficult to manage.

Against this backdrop, Ethiopia's adoption of SAP-style reforms cannot be viewed in isolation from its complex national, regional, and global environment. The reforms are generating intense debate at home, as stakeholders weigh their potential to modernize the economy against the social and political risks of rapid liberalization. Whatever the outcome, these reforms will shape the socio-economic and political trajectory of Ethiopia for years to come, directly or indirectly affecting the lives of its people. The task for policymakers is not only to pursue reforms that address macroeconomic weaknesses but also to build a foundation for inclusive, resilient, and sustainable development in the midst of conflict and uncertainty.

Conditional Structural Lending Arrangements: A Brief History

The foundations of structural adjustment lending by International Financial Institutions (IFIs) were established with the creation of the International Monetary Fund (IMF) and the World Bank at the Bretton Woods Conference in New Hampshire in 1944. The original purpose of these two institutions was relatively narrow: to help maintain global monetary stability, support the reconstruction of Europe, and prevent the resurgence of the protectionist trade policies that had contributed to the Great Depression and the outbreak of the Second World War. Over time, however, both institutions expanded their scope well beyond these initial goals. They increasingly absorbed functions once associated with the United Nations, extending their influence into governance and political questions in ways that would have been unimaginable at the time of their founding. The economic order created at Bretton Woods also cemented the United States' position as the dominant global economic power, consolidating its influence through the international role of the U.S. dollar in trade and investment.

An early precursor to what would later be known as structural adjustment can be seen in the Marshall Plan of the late 1940s. Through this initiative, the United States transferred approximately $15 billion to Western Europe to facilitate post-war recovery. The program sought to stimulate trade, modernize industry, reintegrate European economies, and prevent the spread of communism by promoting a market-oriented order. While often celebrated as a successful model of reconstruction, the Marshall Plan has also been interpreted by some scholars as a form of structural adjustment that ensured the ascendancy of pro-Western elites in Europe and consolidated U.S. influence in the region. In this sense, the program not only revived Europe's economy but also laid the groundwork for a broader ideological and geopolitical agenda.

Although the IMF and the World Bank were initially designed to provide distinct international financial services—primarily for post-war European recovery—their mandates gradually evolved in response to global economic changes. By the 1960s and 1970s, the growth of capital markets, increased capital mobility, and recurrent crises in developing countries pushed both institutions to expand their roles. In particular, the IMF shifted in the late 1970s from primarily offering short-term balance-of-payments support to providing longer-term financial assistance to emerging economies. This evolution was driven largely by the global economic downturn of the 1970s, coupled with the oil crisis that severely strained the economies of the Global South.

By the 1980s, the IMF and World Bank were collaborating closely to design structural adjustment lending programs for developing countries. These programs were explicitly conditional: struggling economies had to commit to implementing comprehensive reform packages to access loans needed to address crises and pursue development. While conditionality had been applied in limited ways before, structural adjustment programs represented the first time that borrowing countries were required to undertake wide-ranging and systemic reforms. Initially, the focus was largely on macroeconomic stabilization through fiscal discipline, currency devaluation, and trade liberalization. However, when these measures failed to deliver economic recovery and growth across much of the developing world in the 1980s and early 1990s, the institutions expanded the scope of adjustment policies to include microeconomic reforms. These extended into areas such as domestic pricing policies, labor markets, and financial sector regulation, embedding market-oriented principles across nearly every aspect of economic governance.

More recently, structural adjustment frameworks have come under pressure to address new global priorities. Western development experts and governments have increasingly urged the IMF and World Bank to become advocates for climate action, incorporating sustainability into their lending practices and policy advice. Yet, the institutions remain constrained by the political interests of their largest shareholders, particularly the United States. Under the Trump administration, U.S. influence underscored the delicate balance the IMF and World Bank must maintain between their core financial mandates and the political demands of their dominant members. Since their establishment, the U.S. and its European allies have exercised disproportionate control over the leadership, personnel, and policy orientation of both institutions, ensuring that global financial governance continues to reflect Western priorities. Currently, in light of what the U.S. President said at the UN General Assembly in September, it is difficult to state with full confidence what Western priorities entail.

Structural Adjustment Programs (SAPs): The Debate

The term *structural adjustment* emerged in the late 1970s and gained prominence in the 1980s to describe the conditions imposed by the International Monetary Fund (IMF) and the World Bank on debtor nations in exchange for financial support. These conditions typically required governments to downsize the social sector, privatize state-owned enterprises, establish independent central banks, liberalize their economies to attract foreign direct investment, and reorient production strategies toward export-led growth rather than import substitution industrialization. By the late 1980s, this bundle of policies designed to restructure economies and prevent future balance-of-payments crises came to be associated with what became known as the "Washington Consensus."

In its original formulation, the Washington Consensus referred to a set of economic policy prescriptions considered to represent sound standards for growth and stability. Over time, these ideas gained traction and heavily influenced the economic strategies of developing nations across Latin America, Africa, and Asia. Yet, the consensus also provoked significant debate. While some viewed it as a pragmatic path toward global integration, critics argued that it often undermined local economic and social systems. The effectiveness of the reforms became increasingly contested, particularly in light of the recurring financial crises and deep social dislocations that accompanied their implementation.

From the IMF's perspective, structural adjustment programs were designed to help nations in recession reorganize their economies and eliminate inefficiencies. The Fund maintained that such measures were essential for controlling inflation, enhancing market efficiency, reducing fiscal deficits, limiting public ownership, and reforming exchange rate policies. Ideally, these policies would restore competitiveness: floating exchange rates would eliminate black markets, austerity measures would stabilize prices, and reduced government borrowing would encourage private investment. In principle, private capital—both domestic and foreign—would then drive growth, boost foreign exchange earnings, and guide economies onto a sustainable development path. The ultimate goal was to increase flexibility, lessen vulnerability to external shocks, and build long-term resilience.

However, structural adjustment programs quickly came under sustained criticism. Economists such as Nobel Laureate Joseph Stiglitz and Jeffrey Sachs argued that the IMF and World Bank placed excessive emphasis on liberalization, deregulation, and privatization, often at the expense of vital social sectors and developmental priorities. They contended that these policies ignored local contexts and undermined social safety nets, job creation, and investment in human capital. Critics also pointed to the paradox of fresh loans being extended to already debt-burdened economies, thereby deepening cycles of indebtedness and poverty rather than resolving them. More radical critiques went further, describing SAPs as mechanisms of "re-colonization," designed to entrench external control over domestic policy choices. The controversy surrounding SAPs thus remains unresolved, with their overall benefits still hotly disputed.

The Dynamics of Structural Adjustment Programs (SAPs) in Africa

Structural adjustment programs were first introduced in Africa in the early 1980s and have remained a dominant feature of the continent's economic landscape ever since. For most African states, participation in such programs became the norm rather than the exception. Governments were drawn into these arrangements both by the need to restore macroeconomic stability and by the promise of accelerated growth through greater reliance on market forces. Yet, their implementation coincided with a period of dramatic erosion in state capacity, declining social sector investment, and deepening vulnerability across African societies. SAPs sought to stabilize faltering economies, restructure systems of production and accumulation, and lay the foundation for renewed growth, but the social and political costs were profound.

The IMF and World Bank justified these programs because Africa's key economic weaknesses stemmed from state mismanagement, price distortions caused by government intervention, and inefficient allocation of resources to uncompetitive industries. They believed that by liberalizing trade, devaluing currencies, deregulating markets, and cutting subsidies, African economies would become more efficient, competitive, and better integrated into global markets. In addition, privatization of state-owned enterprises and cuts in public expenditure, particularly in health and education, were expected to reduce fiscal burdens and improve resource allocation. In theory, these measures would not only stabilize economies but also reduce poverty and inequality, thereby raising living standards.

The outcomes, however, were far more complex. While SAPs achieved some success in reducing macroeconomic imbalances, they also generated widespread social dislocation and uneven development. Currency devaluations and subsidy removals often led to soaring prices for basic goods, disproportionately affecting vulnerable populations. The reduction of government spending on education and healthcare weakened social safety nets, deepened inequality, and eroded long-term development prospects. Although economic liberalization was intended to spur growth, investment and savings ratios remained low, and real per capita GDP growth across much of Sub-Saharan Africa was disappointing.

Decades later, the legacy of SAPs in Africa continues to fuel debate. On the one hand, supporters argue that the programs laid a foundation for fiscal discipline and greater market efficiency. On the other hand, critics highlight the high social costs, erratic growth outcomes, and entrenched inequalities they produced. The inherently political nature of macroeconomic reform—shaped as much by power relations as by technical prescriptions—underscores the continuing relevance of these debates. More than forty years since their introduction, structural adjustment programs remain among the most controversial aspects of Africa's economic history, with their appropriateness and effectiveness still contested both within the continent and beyond.

The Horn of Africa and SAPs: Economic Reforms Amidst Weak State Capacity, Fragmented Political Order, and Weak Domestic Private Sector

In recent decades, the debate around structural adjustment and economic reform in the Global South has increasingly shifted toward questions of governance and institutional capacity. Reform programs are no longer judged solely by their technical design or economic prescriptions, but also by the extent to which political, legal, and administrative frameworks can support their implementation. Nowhere is this more evident than in the Horn of Africa, where state capacity remains extremely weak. Governments in the region face a range of institutional weaknesses, security challenges, macroeconomic imbalances, and political economy constraints that severely limit their ability to design, enforce, and sustain reform programs. This lack of institutional capacity undermines the implementation of reforms associated with Structural Adjustment Programs (SAPs) promoted by the IMF and World Bank, and in some cases, exacerbates the very problems these programs were intended to address.

When the state cannot effectively design, implement, and enforce reforms, the intended positive outcomes are often compromised. Even when there is political will to pursue adjustments, the mechanisms of change are often inadequate to bring about meaningful transformation. A clear example of this is the weak regulatory capacity of states across the region. Liberalization often progresses faster than the state's ability to regulate new financial actors and markets. Consequently, the aggressive strategies of incoming domestic and foreign players go unchecked, leaving fragile economies vulnerable to instability. While regulations and oversight institutions are theoretically key to ensuring that liberalization promotes stability and growth, in practice, states in the Horn of Africa often lack the institutional infrastructure and enforcement capabilities to manage these processes. The SAPs' focus on deregulation and the downsizing of enforcement agencies worsens this problem, rendering governments unable to combat corruption, tax evasion, and the failure of privatization efforts. A more cautious approach—allowing regulatory frameworks to be built and strengthened before fully opening markets—would offer greater stability and reduce the risk of economic disruption.

Deepening political fragmentation across the Horn of Africa presents another major obstacle to reform. The region's political scene is often dominated by competing elites, patronage networks, and fragile settlements rather than strong, inclusive institutions. In such environments, governments find it difficult to build consensus around the reforms demanded by SAPs. Instead of fostering political stability, adjustment programs can heighten divisions. Painful economic measures—such as removing subsidies, devaluing currency, or cutting public sector jobs—often hurt already vulnerable groups disproportionately. In contexts where the state cannot deliver basic services or establish inclusive governance, these measures risk fueling resentment, social unrest, and even violent conflict. The widespread presence of illicit economies in the region adds another layer of complication. Smuggling, contraband trade, and informal financial flows weaken state revenue, distort markets, entrench corruption, and heighten instability. Without addressing these political and economic realities, SAPs are unlikely to succeed. Reforms need to be crafted with a clear understanding of the region's political fragmentation and the widespread role of informal economies.

Equally important is the weakness of the domestic private sector in the Horn of Africa. A core assumption behind SAPs and broader liberalization efforts is that opening economies to foreign competition will boost efficiency and productivity. However, in areas where domestic industries are underdeveloped and lack the capacity to compete, liberalization often results in collapse rather than growth. Foreign competitors, especially those operating at lower costs, can overwhelm fragile local industries, leading to closures, job losses, and increased unemployment. This undercuts economic stability and social cohesion. Additionally, a weak private sector reduces a country's trade competitiveness and resilience to external shocks. Without strong domestic firms capable of attracting investment and competing globally, economies become overly dependent on foreign capital, making them vulnerable to external fluctuations and limiting control over key industries. The experience of today's advanced economies highlights the importance of protecting and nurturing domestic industries until they are ready to compete internationally. Historically, wealthy nations relied heavily on protectionist policies—such as tariffs, subsidies, and state-led investments—to support and develop their industries before opening up to global competition. For the Horn of Africa, an adaptive reform approach that balances liberalization with strategic protection of domestic industries is crucial. This strategy can prevent premature collapse of local businesses and help establish a solid foundation for long-term competitiveness, resilience, and inclusive development.

Ethiopia's Liberalization Moves: Shifting Narrative from a Developmental State Approach to a Homegrown Economy

Ethiopia, under the leadership of Prime Minister Abiy Ahmed, has been undergoing a profound shift in economic policies and institutional arrangements, favoring market forces and private enterprise. A central objective of the reform program is the pursuit of macroeconomic stability. For years, the country has grappled with chronic fiscal and external imbalances, including ballooning public debt, persistent shortages of foreign exchange, and runaway inflation. To address these challenges, the government has introduced a mix of corrective measures such as tightening monetary and fiscal policies, restructuring debt, and liberalizing the financial sector. These efforts are aimed at creating a more sustainable macroeconomic environment capable of supporting long-term growth.

Another cornerstone of the reform agenda is the effort to open Ethiopia to foreign investment. By liberalizing key sectors such as telecommunications, finance, logistics, and energy, the government aims to attract much-needed capital inflows, transfer of technology, and managerial expertise. The entry of Safaricom into the telecommunications sector is widely regarded as a symbolic milestone, demonstrating how competition and innovation can expand consumer choices, improve service delivery, and stimulate broader economic dynamism. At the same time, the reform program emphasizes greater private sector participation in the economy. For over a decade, Ethiopia's growth strategy had been heavily reliant on state-owned enterprises (SOEs) such as Ethiopian Airlines, Ethio-Telecom, and the Ethiopian Electric Power Corporation. While these SOEs played a vital role in building infrastructure and sustaining rapid GDP growth, they also created inefficiencies, imposed fiscal strains, and contributed to rising debt levels.

This transition represents a significant departure from Ethiopia's earlier developmental state model, which was inspired by the economic transformations of East Asian countries. During the Ethiopian People's Revolutionary Democratic Front (EPRDF) era, the developmental state approach placed the government in command of the economy, maintaining ownership over strategic sectors, tightly regulating the private sector and financial institutions, managing the exchange rate, and maintaining capital controls. This model delivered notable successes, including sustained double-digit GDP growth for over a decade, substantial reductions in poverty, and remarkable advances in infrastructure and human capital development.

Despite these gains, the developmental state model also revealed significant shortcomings. A large segment of Ethiopia's population continues to live in absolute poverty, and economic growth has been accompanied by rising inequalities both vertically (between rich and poor) and horizontally (between regions and groups). The massive state-driven investments, heavily dependent on imports, placed immense pressure on the country's foreign exchange reserves. Rising external debt—compounded by poor project execution and disappointing export performance—further heightened the risk of debt distress. These vulnerabilities raised concerns that the model had reached its limits and could no longer sustain the country's economic transformation.

In response, the Prosperity Party, under PM Abiy Ahmed's leadership, has shifted course both ideologically and strategically. The political and economic narrative has moved away from the developmental state framework toward what has been termed a "homegrown" approach, which draws inspiration from endogenous growth models. This new vision seeks to correct macroeconomic imbalances, ease structural bottlenecks, and open up new opportunities for growth by placing greater emphasis on private sector dynamism. The Homegrown Economic Reform Agenda (HERA), launched in 2019, embodies this new orientation, outlining a set of macroeconomic, structural, and sectoral reforms designed to stabilize the economy and unlock its potential. At its core, the agenda reflects a broader assessment that Ethiopia's previous state-led economic model, while successful in the past, had become unsustainable. By empowering the private sector and rebalancing the role of the state, the government hopes to chart a more resilient and inclusive path toward development.

Ethiopia's Comprehensive Macroeconomic Reform – the SAPs

The Ethiopian government's decisive shift toward market forces and private enterprise culminated in July 2024 with the adoption of a comprehensive IMF-backed macroeconomic reform package. Among its most significant provisions, the policy allows commercial banks to set foreign exchange rates and permits non-bank entities to operate foreign exchange bureaus. According to former governor Mamo Mihretu of the National Bank of Ethiopia, these reforms are designed to "introduce a competitive, market-based determination of the exchange rate and address a long-standing distortion within the Ethiopian economy." This measure represents a historic departure from decades of government-fixed exchange rates, which had fueled a parallel black market and perpetuated systemic inefficiencies.

These sweeping reforms emerged from prolonged negotiations with the IMF, the World Bank, and Ethiopia's foreign creditors. The IMF has approved a four-year credit facility worth $3.4 billion, with an immediate disbursement of $1 billion to support Ethiopia's balance of payments. In addition, the government anticipates securing over $10 billion in new financing from the World Bank, bilateral donors, and currency swap agreements with foreign governments. For policymakers in Addis Ababa, these reforms are both a necessity and a choice. They are necessary, it's claimed, because the state-led development model, heavily reliant on public investment, had become fiscally unsustainable. Yet they also reflect a deliberate choice to embrace a new paradigm of private-sector-led, productivity-driven growth that prioritizes efficiency, competitiveness, and innovation.

The reform package includes far-reaching measures: a managed devaluation of the birr, adoption of a more flexible exchange rate regime, strict limits on government spending and domestic credit expansion, the removal of subsidies, an expansion of social spending, deficit reduction, and the gradual privatization of state-owned enterprises. Alongside these macroeconomic adjustments, domestic laws governing business, investment, labor, and foreign exchange have been overhauled. Ethiopia has opened sectors such as banking, retail, and logistics to foreign competition, launched its first public stock exchange, and approved legislation allowing foreign ownership of property. The IMF argues that these reforms will stimulate private-sector-led growth, thereby enabling the government to increase investments in health, education, infrastructure, and social protection systems.

At their core, however, these reforms are not merely technical adjustments but deeply political choices. Their success will depend on the Ethiopian government's ability to mobilize broad political support, protect vulnerable populations from the immediate costs of liberalization, and sustain investor confidence in a challenging global environment. The political economy of reform will shape outcomes as much as technical expertise. Critical questions will arise regarding whether new taxes or revenue measures are sufficient to finance inclusive development, how effectively remedial social safety nets are deployed to shield the poorest, and whether governance structures—through transparency, accountability, and institutional safeguards—can ensure equitable implementation. In this sense, while the reforms represent a historic opening of Ethiopia's economic system, their long-term success will be determined by the country's capacity to balance necessary economic discipline with social and political inclusion, with the autonomy of the government.

Challenges and Opportunities to Ethiopia's Macroeconomic Reforms

Ethiopia's macroeconomic reforms present both significant challenges and potential opportunities. Designed to stabilize the economy, attract investment, and create the conditions for long-term growth, these reforms are taking place in an environment of profound political, security, and institutional fragility. The ability of the government to navigate these complexities will determine whether reforms deliver their intended results or risk exacerbating existing vulnerabilities. One of the most pressing challenges stems from the country's political instability and recurrent conflicts. Successful reforms require predictability, consensus, and security, yet Ethiopia is pursuing ambitious structural adjustments amid violent conflicts in some parts of the country, large-scale displacement, and contested legitimacy at both federal and regional levels. These conditions have already triggered severe humanitarian crises, diverted resources from development priorities, and constrained the government's policy space.

As a result, reforms that might otherwise have attracted investment are undermined by an environment of insecurity and mistrust, which deters both domestic and foreign investors and further weakens public confidence in the reform process.

The fiscal outlook is further constrained by the sharp decline in Overseas Development Assistance (ODA). A decade ago, foreign aid accounted for about 12 percent of Ethiopia's GDP; today, that figure has dropped below 4 percent and continues to fall. Donor funding cuts are particularly destabilizing for a country that remains heavily exposed to humanitarian crises and disaster risks, with nearly one-fifth of its population projected to require assistance in 2025. The international aid shortfall is already evident in the UN's underfunded response plan for Ethiopia, which increasingly depends on temporary waivers rather than predictable financing. At the same time, Ethiopia faces the burden of implementing International Monetary Fund (IMF) prescriptions, including subsidy cuts, currency devaluation, revenue mobilization, and reductions in public spending. While these measures are intended to stabilize the macroeconomy, they disproportionately burden the poor and reduce fiscal flexibility, leaving the government with little capacity to cushion vulnerable groups or sustain critical reforms in the face of declining aid.

A deeper structural challenge lies in Ethiopia's limited domestic economic capacity. The private sector remains underdeveloped, with weak financial depth, low technological capability, and limited competitiveness. Premature liberalization of sensitive sectors such as banking, telecom, or energy risks overwhelming domestic firms and entrenching foreign dominance, thereby stunting the growth of indigenous entrepreneurship. As Joseph Stiglitz argues in *Globalization and Its Discontents*, the rapid influx of foreign banks often creates an uneven playing field that disadvantages local institutions, while financial liberalization can foster instability when short-term profit motives outweigh long-term investments. This cautionary insight is highly relevant for Ethiopia, where an underprepared financial sector may struggle to withstand competition from well-capitalized multinational corporations. A measured approach to market opening is thus critical to avoid undermining long-term economic sovereignty and development.

Infrastructure gaps further constrain the reform agenda. Ethiopia's transport, energy, and communications systems remain underdeveloped, making it difficult to attract investment and create jobs at the scale envisioned. Private actors are often reluctant to finance infrastructure due to its high costs, long payback periods, and the public good nature of the sector, where benefits are broadly shared. This necessitates continued state involvement and robust public-private partnerships (PPPs). While Ethiopia has adopted a PPP framework to mobilize investment and improve service delivery, implementation has so far been limited, leaving critical bottlenecks unresolved. Without significant progress on infrastructure, the transition to a market-driven economy risks being stalled by structural inefficiencies that undermine competitiveness and productivity.

Overdependence on international financial institutions and their standardized prescriptions presents another danger. The IMF and World Bank tend to promote neoliberal orthodoxy—fiscal austerity, privatization, and market liberalization—that often overlooks local political and social contexts and realities. Ethiopia's history of state-led development and its unique political economy may not fit neatly into these models. Excessive reliance on external blueprints risks hollowing out state capacity and weakening public service delivery. Indeed, ActionAid International has warned that Ethiopia's strict adherence to IMF-mandated austerity—through limits on public spending, wage controls, and privatization—has already eroded the government's ability to deliver basic services. Balancing external guidance with locally grounded policy innovation is therefore essential if reforms are to strengthen rather than weaken Ethiopia's development trajectory.

Exchange rate liberalization adds another layer of complexity. The shift from a fixed to a more flexible exchange rate system exposes Ethiopia to volatility that makes imports more expensive, particularly for strategic goods such as fuel, fertilizers, pharmaceuticals, and heavy machinery. Price increases in these sectors have cascading effects across the economy, raising production costs, eroding consumer purchasing power, and heightening inflationary pressures. Meanwhile, Ethiopia's exports remain dominated by primary commodities such as coffee, flowers, and gold, the prices of which are set externally and remain highly volatile. This imbalance heightens vulnerability to exchange-rate shocks and deterioration in terms of trade. Compounding the challenge are illicit financial flows, low domestic savings, and weak tax collection, which constrain fiscal space. According to the African Development Bank (AfDB), Ethiopia loses up to 2.2 percent of annual GDP growth and between 10 and 30 percent of government revenue to illicit financial outflows. Unless reforms are accompanied by serious measures to diversify exports, improve domestic revenue mobilization, and curb financial leakages, stabilization efforts will remain fragile and reversible.

Opportunities for Ethiopia's Liberalization Pathways

Despite its daunting challenges, Ethiopia's reform agenda presents significant opportunities that could reshape its economic future. The country's ongoing debt crisis continues to weigh heavily on its trajectory, as Ethiopia remains in default while seeking comparable relief from bondholders, even after reaching tentative agreements with official creditors. Engagement with international financial institutions opens for debt restructuring, concessional financing, and technical support. If well-negotiated, such an agreement eases fiscal pressures and enables the government to reallocate resources to vital sectors in health, education, and food security. Successfully concluding a debt relief deal would mark a critical milestone in Ethiopia's macroeconomic reform efforts, creating the breathing space needed to stabilize the economy and lay the groundwork for longer-term structural transformation.

The liberalization of previously closed sectors also creates opportunities to attract much-needed foreign direct investment (FDI). By opening up telecom, banking, logistics, and energy to external players, Ethiopia stands to benefit not only from capital inflows but also from the transfer of technology, global managerial expertise, and innovation. FDI, if strategically managed, could modernize infrastructure, improve service delivery, and inject foreign exchange (FX) into the economy. The entry of foreign banks, while raising regulatory and competitiveness challenges, also offers the prospect of deepening financial inclusion and enhancing sectoral efficiency. As both Joseph Stiglitz and the late Prime Minister Meles Zenawi cautioned, however, these opportunities can only be fully realized if the process is carefully guided by a coherent national strategy that protects economic stability and ensures that reforms advance Ethiopia's long-term growth prospects.

Since many foreign direct investment (FDI) entrants in Ethiopia provide services domestically and generate their revenues largely in local currency, the sustainability of their operations increasingly hinges on their ability to remit profits in foreign exchange. The chronic shortage of hard currency in the country has made this process difficult and, in some cases, delayed or restricted repatriation altogether. This structural imbalance between local earnings and foreign exchange availability undermines investor confidence, as profits risk being trapped in the domestic market.

The experience of privatization in certain sectors, particularly in breweries and related industries, highlights these challenges vividly. Although privatization attracted significant foreign capital, the inability of firms to access sufficient FX to repatriate dividends or service external obligations created financial bottlenecks. This situation has fueled the emergence and expansion of parallel foreign exchange markets, where exchange rates diverge sharply from the official rate. As a result, investors often resort to informal channels to bridge the gap, further distorting Ethiopia's FX market and complicating monetary policy management.

In effect, Ethiopia faces a credibility dilemma: while it seeks to attract more FDI to finance growth and generate employment, the limited capacity to assure investors of predictable foreign exchange access undermines the very objectives of liberalization and privatization. Addressing this challenge requires not only increasing the supply of foreign exchange through export diversification and remittance channels but also creating transparent, rules-based mechanisms for FX allocation and gradual liberalization of the currency regime to narrow the spread between official and parallel markets. Without such measures, Ethiopia risks discouraging potential investors, dampening the benefits of privatization, and entrenching informal FX practices that weaken macroeconomic stability.

Rebalancing the economy away from state dominance further offers the chance to unleash Ethiopia's domestic entrepreneurial potential. A more dynamic private sector can help diversify the economy, reducing vulnerabilities linked to an overreliance on state investment or single-sector dependence. By encouraging competition and reducing monopolistic barriers, reforms can foster a business environment that supports innovation and risk-taking. Critical industries such as manufacturing, agribusiness, and services could emerge as new engines of growth if supported with adequate financing, infrastructure, and market access.

Reforming state-owned enterprises (SOEs) is also central to this process. While globally competitive firms like Ethiopian Airlines demonstrate the potential for excellence, many SOEs remain inefficient, opaque, and fiscally burdensome. Introducing reforms through partial privatization, stronger accountability, and improved management could reduce waste, improve service delivery, and free up scarce public resources for priority social and developmental investments.

Ethiopia's strategic geography and demographic weight position it well for deeper regional and global economic integration. Liberalization offers the potential to transform the country into a transport and logistics hub for the Horn of Africa, while also enabling it to benefit more fully from the African Continental Free Trade Area (AfCFTA). Stronger connectivity and competitiveness could help integrate domestic industries into regional and global supply chains, accelerating diversification and resilience. Equally important, the reform process itself creates momentum for institutional modernization. Liberalization requires modernized financial systems, credible regulatory bodies, effective tax administration, and improved governance. While demanding, these changes could strengthen Ethiopia's institutional resilience, providing the foundation for sustainable long-term growth, improved investor confidence, and enhanced state capacity.

IMF, BRICS, and Ethiopia's Economic Reforms: A Strategic Positioning Dilemma?

The dual membership of countries in competing economic blocs, while offering opportunities, also forces them to navigate highly complex geopolitical and economic landscapes. For instance, BRICS members with strong state-led economies, such as China and Russia, tend to view the global economic order differently from the IMF's established frameworks. At the core of the BRICS vision of financial sovereignty lies its cross-border payments system, designed to facilitate transactions in local currencies and thereby reduce reliance on dominant international currencies and the dollar-centric financial infrastructure. This development can be read as a deliberate challenge to the post-World War II frameworks that have governed international monetary and financial systems for decades. For countries like Ethiopia, which simultaneously seek IMF assistance while pursuing greater economic autonomy, this divergence introduces tensions and competing pressures in shaping reform pathways.

Ethiopia must therefore craft a careful and nuanced strategy that allows it to benefit from both the West (with its institutions) and BRICS+ without being caught in their growing rivalry. On one hand, IMF engagement remains crucial for macroeconomic stabilization, debt restructuring, and access to concessional financing. On the other hand, BRICS+ initiatives—especially through the New Development Bank (NDB)—present alternative channels for financing infrastructure and development projects while offering models less encumbered by Western conditionalities. Ethiopia has already taken steps in this direction, such as signing currency swap agreements with China and the UAE to support trade in local currencies. However, the deepening friction between BRICS nations and the United States adds another layer of uncertainty, as Ethiopia's moves may be interpreted through a geopolitical lens by Washington, particularly given the U.S. tendency to view global developments through the prism of economic risks and strategic opportunities.

Navigating between these blocs requires Ethiopia to embrace what can be described as a strategy of "double alignment." This means balancing the benefits of dollar stability and IMF-supported reforms with BRICS' push for a multipolar financial infrastructure. The challenge is not only in managing institutional differences but also in dealing with the diverse interests and internal dynamics of both blocs. Ethiopia's economic future will depend on how well it can balance these competing pulls, ensuring that external alignments do not derail internal reform objectives. However, the uncertainty generated by escalating competition between the West and BRICS risks creating an unstable investment climate. Such unpredictability, if not carefully managed, may deter much-needed foreign investment, aggravate financial instability, and worsen existing social challenges.

To mitigate these risks and turn competing pressures into opportunities, Ethiopia should adopt a pragmatic approach of double alignment. This requires balancing the stability provided by IMF programs with the diversification opportunities offered by BRICS+. Practically, this means three things: first, Ethiopia should negotiate with the IMF in a way that secures debt relief and stabilization support while clearly safeguarding fiscal space for social spending and industrialization. Second, it should deepen engagement with the BRICS New Development Bank to fund infrastructure, energy, and digital connectivity projects—areas less likely to be prioritized under IMF programs. Third, Ethiopia should maintain strong diplomatic communication with the United States and Europe to reassure them that BRICS engagement is meant to diversify financing and other economic opportunities rather than to signal political realignment. By building transparent frameworks for financial cooperation and emphasizing complementarities rather than confrontation, Ethiopia can reduce perceptions of risk while expanding its room to maneuver.

If managed carefully, this dual-track strategy could help Ethiopia hedge against volatility in the global order, secure diversified financing sources, and preserve domestic policy autonomy. However, if the balancing act falters, the resulting uncertainty could undermine investment flows and aggravate economic and social instability. The imperative, therefore, is not choosing between the West and BRICS, but institutionalizing a coherent national strategy that ensures Ethiopia's reforms serve domestic priorities while avoiding entrapment in great power rivalries.

Challenges Mitigation Mechanisms

The first aspect of Ethiopia's economic reform relates to currency devaluation and its far-reaching implications. Devaluation, by definition, reduces the value of the local currency relative to foreign currencies, and this has a direct impact on national wealth creation. Essentially, the accumulated wealth of individuals and households loses value at the same rate as the devaluation itself, eroding savings and undermining their purchasing power. For those struggling to escape poverty, the impact is even more devastating. Years of effort to improve livelihoods can collapse overnight as incomes lose value in real terms and the cost of living escalates. Instead of reducing poverty, devaluation risks expanding the ranks of the poor, reversing the hard-won gains Ethiopia has made over decades in its poverty reduction agenda.

At the macroeconomic level, devaluation is often justified as a corrective measure to restore balance and competitiveness in the external sector. However, in Ethiopia's case, it also multiplies existing challenges by inflating the burden of external debt. Since the country's debt obligations are denominated in foreign currencies, a weaker local currency significantly increases debt service costs when expressed in birr terms. This worsens the fiscal position and diverts scarce resources away from investment in development and social protection. Devaluation, as indicated in earlier sections, makes the importation of strategic goods—such as fuel, pharmaceuticals, fertilizers, and heavy equipment—substantially more expensive. These goods are critical inputs for the economy and cannot be substituted by domestic production in the short to medium term. For domestic investors and businesses reliant on imported inputs, the escalating cost structure makes operations less viable and reduces incentives for new investment.

Although one of the intended goals of devaluation is to reduce the gap between official and parallel foreign exchange markets, the outcome in practice is often disappointing. The government's limited capacity to supply the market with sufficient hard currency, huge gaps between import and export, combined with the sophistication and resilience of informal networks, results in parallel market prices rising in tandem with official adjustments. Instead of convergence, the two markets often move upward together, leaving the structural shortage of foreign currency unresolved. As a result, while devaluation is promoted as a measure to improve competitiveness and reduce distortions, it frequently ends up fueling inflation, raising import costs, worsening debt vulnerabilities, and eroding the welfare of ordinary citizens. This dynamic underscore the complexity of devaluation as a policy tool in Ethiopia's context, where structural constraints—rather than exchange rate misalignments alone—drive the crisis in the foreign exchange market.

Looking ahead, Ethiopia could manage devaluation more strategically by linking it to a phased and comprehensive reform package rather than pursuing it as a stand-alone measure. A gradual, predictable depreciation path—such as a crawling band—would help anchor expectations and reduce economic shocks. Devaluation should be paired with strong social safety nets, such as targeted cash transfers and subsidies for essential goods, to shield the most vulnerable from the immediate impact of rising prices. At the same time, Ethiopia must accelerate efforts to expand its export base in agriculture, manufacturing, and services, ensuring that currency adjustments translate into real competitiveness gains rather than just higher import bills. Complementary measures, including tightening monetary policy to control inflation, improving FX allocation transparency, and reducing dependency on non-tradable imports, would help reinforce the benefits of devaluation. In this way, devaluation can become part of a broader strategy that balances macroeconomic stability with social protection and long-term structural transformation.

Comparative experiences from other countries illustrate both the risks and opportunities of devaluation. For instance, Egypt undertook a large and sudden devaluation in 2016 as part of its IMF-supported reforms. While this move unlocked substantial external financing and narrowed the FX gap, it also triggered rapid inflation that eroded household welfare, forcing the government to expand food subsidies and cash-transfer programs. Ghana's more recent experience in 2022–2023 shows another cautionary tale: a sharp devaluation, driven by debt distress and IMF engagement, led to soaring import costs and public discontent, partly because structural reforms and export expansion lagged behind currency adjustment. By contrast, countries that have used a phased depreciation path—such as Kenya in the early 1990s or more recently Nigeria's attempts to unify its exchange rates—show that while challenges persist, gradual adjustment combined with export promotion and social protection can ease the burden on citizens. These cases suggest that Ethiopia should avoid abrupt, large-scale devaluations and instead adopt a measured, sequenced approach that is embedded in a broader development strategy, protecting vulnerable groups while gradually strengthening the foundations of competitiveness.

Ethiopian Reform and Global Rivalry

Ethiopia's reform program is complex and has important elements of great power rivalry and competition. The IMF-supported reform program is never just about economics—it is also a lever of political influence. The West views macroeconomic assistance as an opportunity to shape not only the fiscal and monetary policy but also the country's diplomatic posture in the Horn of Africa. By conditioning support on broad notions of "good governance," transparency, and predictability, Western actors in a variety of ways push Ethiopia to align its regional role with their expectations of stability and cooperative behavior.

The challenge for Ethiopia is that this external normative pressure interacts with its own domestic vulnerabilities and its strategic need for autonomy. If reforms are perceived primarily as externally imposed conditionalities, they risk generating nationalist resistance or undermining the credibility of the reform agenda at home. Yet, Ethiopia cannot easily ignore these normative expectations, given the importance of IMF endorsement for unlocking broader financing—including from the World Bank, Paris Club creditors, and even some private investors.

In other words, Ethiopia is being nudged toward recalibrating its regional behavior as part of the price of economic stabilization. The key question becomes whether the government can navigate this without appearing to sacrifice sovereignty, and whether it can convert these external expectations into opportunities to strengthen its own regional diplomacy. In this connection, a few interrelated points stand out in Ethiopia's case:

1. The issues of reforms with the support of the IMF are not only economic, but are also geopolitical: What Ethiopia wants to achieve in the process is designed not just to stabilize macroeconomic fundamentals (inflation, debt, forex shortages), but also to anchor Ethiopia more closely to a rules-based international financial order led by the West. The IMF's conditions have bearing on governance, transparency, fiscal discipline, monetary policy autonomy, and foreign policy. This naturally intersects with how Ethiopia balances its external partnerships—particularly with China, which has financed much of Ethiopia's infrastructure and does not usually condition loans on governance.

2. Debt politics reflect great power competition: Ethiopia's Soviet-era debt cancellation is an early example of how creditor politics can be shaped by great power incentives—in that case, Russia's desire to join the Paris Club. Today, with China outside the Paris Club, the issue is more complicated. China resists full debt cancellation because it undermines its development-finance model and sets precedents for dozens of other debtor countries. Instead, Beijing prefers case-by-case rescheduling, grace periods, or refinancing—what's often called "extend and pretend." For Ethiopia, that means debt distress relief from China is partial and gradual, not transformational.

3. IMF programs require creditor coordination: The IMF will not disburse funds unless there is assurance that a country's debt is sustainable. That means China, Ethiopia's largest bilateral lender, must agree to some form of restructuring that satisfies IMF assessments. This is where the geopolitical rivalry enters: the U.S. and Europe want China to accept losses, or "haircuts," similar to those imposed on Paris Club creditors, while China seeks to avoid precedent-setting debt write-offs. Ethiopia thus becomes an arena where great powers test their competing approaches to global financial governance.

4. Limits of Ethiopia's "developmental state debt model": Ethiopia borrowed heavily during its state-led growth model to finance infrastructure, industrial parks, and energy projects. While this spurred rapid GDP growth, much of the debt did not generate sufficient export revenues, hence creating debt distress and unsustainability. The mismatch between debt service obligations (in hard currency) and foreign exchange earnings has pushed Ethiopia into recurring crises. The IMF insists on liberalization, currency reforms, and fiscal tightening; China is more flexible, but also more cautious, given Ethiopia's repayment difficulties.

5. Strategic choices for Ethiopia: Ethiopia's challenge is to avoid becoming caught in a debt trap defined by external rivalries. If it leans too heavily on IMF conditionality, it risks domestic backlash against austerity and loss of policy space. If it relies too heavily on China, it risks liquidity shortages and an external perception of dependency. Navigating between the two requires negotiating deeper debt relief—not just rescheduling—from all creditors, including China, ensuring reforms balance fiscal discipline with social protection to avoid domestic complications, and maintain strategic autonomy in how it uses external finance, without appearing to be captured by either camp.

In short, Ethiopia's reform effort is not just a technocratic economic adjustment, but a negotiation of its geopolitical positioning. Debt relief, IMF conditionality, and Chinese financing are all instruments through which larger powers compete—while Ethiopia tries to preserve room for maneuver.

Ethiopia has a range of potential strategies it could consider to widen its policy space and avoid being boxed in by either the West or the East. One possible approach would be to frame negotiations around a dual objective of "cash-flow relief plus growth unlock," rather than focusing exclusively on austerity. A key ambition could be to reduce gross foreign exchange debt service to a manageable percentage—perhaps in the range of 15–20%—of exports over the next three to five years. This might involve exploring front-loaded balance-of-payments support from the IMF and other official creditors, combined with social-protection measures to maintain access to food, fuel, transport, and health. In parallel, Ethiopia might seek a re-profiling of cash flows with China—through longer maturities, lower interest rates, grace periods, and partial interest capitalization—structured as a way to enable project completion and repayment rather than a precedent-setting debt write-off.

Ethiopia could also consider pursuing two complementary negotiation tracks. Track A might involve engagement with the IMF, the Common Framework, and Paris Club members, where Ethiopia could signal its readiness to improve debt transparency, strengthen the finances of state-owned enterprises, present a credible plan for foreign-exchange reform, and adopt clear fiscal rules. Track B could focus on China and other non-Paris Club creditors, possibly through a "country platform" that consolidates loans and EPC (Engineering, Procurement, and Construction) contracts, streamlining projects and boosting revenue generation. Multilateral partners such as the World Bank, African Development Bank, and Islamic Development Bank could act as neutral facilitators, reassuring Chinese creditors by reducing project risks while supporting the IMF's debt sustainability framework.

To maintain trust among creditors, Ethiopia might consider offering comparable treatment without insisting on identical terms—ensuring all official bilateral creditors receive broadly similar net present value (NPV) relief, albeit through different instruments. Paris Club creditors could receive modest nominal relief and extend maturities, while Chinese creditors might prefer grace periods, lower interest rates, and back-loaded step-ups. Publishing an independent NPV worksheet under non-disclosure agreements during negotiations could help demonstrate fair burden-sharing.

Another focus could be converting stranded "developmental state" debt into productive, revenue-generating assets. Ethiopia might consider ring-fencing revenues from power exports, fiber capacity, logistics fees, and industrial park leases into shared creditor accounts, with performance covenants linked to operational improvements. Low-yield EPC add-ons could be decommissioned or renegotiated, possibly through liquidated damages or scope swaps, to prevent additional fiscal burdens.

Regarding foreign-exchange reform, Ethiopia could opt for a gradual and predictable approach rather than a sudden "big bang" devaluation. A crawling band system might offer a clear depreciation pathway, supported by a transparent FX queue for priority sectors and a temporary surrender regime with improved retention rates for key exporters such as coffee, horticulture, and digital services. IMF support and a published rules-based intervention mechanism could help anchor market expectations. Ethiopia might also consider embedding state-contingent features in its debt structure, providing automatic relief during shocks—such as clauses that pause or reduce debt service if exports or GDP fall below pre-agreed thresholds. Climate-related clauses could enable temporary standstills during severe droughts or floods, offering relief without requiring headline write-offs.

Sequencing reforms carefully can balance political and economic factors. Early steps might include releasing a comprehensive debt data room, announcing the FX path, launching targeted cash transfers, and pausing non-essential capital spending. Later phases could address state-owned enterprise triage, public-private partnerships, and measures to boost exports, followed by structural reforms like partial listings and tariff system updates.

Global financial rivalry could be turned into a chance by inviting multiple partners to participate. For instance, Chinese policy banks might focus on completing projects, MDBs on governance and operations, and Gulf or African development funds on equity stakes.

Domestically, Ethiopia could work on strengthening the political support for reform by safeguarding social spending floors, directing part of privatization proceeds to a social stabilization fund, and creating compensation mechanisms for groups most impacted by reforms. Lastly, transparent communication is vital. Publishing a quarterly reform scorecard, hosting joint press briefings with the IMF and separate sessions with Chinese partners, and sharing a consistent message—such as "we pay what we can, as growth allows, with shared upside for all partners"—could help build trust and legitimacy.

Maintaining a risk dashboard with contingency measures—for instance, alternative project structures if state-contingent clauses are declined, bridge financing arrangements if IMF disbursements are delayed, or temporary measures to cushion FX shocks—could help Ethiopia remain agile under uncertainty.

Taken together, such an approach could give Ethiopia breathing space, reassure both Western and Chinese creditors, leverage global rivalry constructively, and maintain domestic stability through protected social spending and early, visible wins.

The Way Forward

Ethiopia's path forward requires bold and imaginative thinking that goes beyond the one-size-fits-all prescriptions of the IMF. While the country faces intertwined challenges of economic distress, persistent security crises, and questions of state legitimacy, its reform trajectory must reflect its unique social and political complexities. Ethiopia's economy is young, dynamic, and still in transition, making rigid orthodoxies insufficient. The reform agenda will unfold in an environment of fluid geopolitical shifts and intense competition, where both Western and non-Western actors seek to influence Ethiopia's choices. The West will likely use reforms to shape Ethiopia's political behavior, while non-Western partners will offer alternatives that trade financing for political alignment. The strongest option for Ethiopia is not choosing one bloc over another, but building domestic institutions and rules that set the terms of engagement. Anchoring reforms in transparency, competition, and a statutory social floor would allow Ethiopia to attract financing from diverse partners while safeguarding sovereignty and ensuring that inclusive growth remains central, even in a contested global environment.

Yet, external alliances are only half of the battle. Real sovereignty is built domestically—brick by brick—through a productive economy. Ethiopia cannot devalue its way to prosperity; it must instead invest in value addition and industrial upgrading. Processing its world-class coffee rather than exporting raw beans, manufacturing essential pharmaceuticals, and scaling up light industry are essential steps toward creating jobs, generating foreign exchange, and building resilience against global price shocks. Equally critical is rebuilding trust between the state and its citizens. Sustainable growth cannot be divorced from political legitimacy, and Ethiopia requires a political settlement that addresses recurrent conflict and fosters inclusive governance. Without such a settlement, even the most carefully designed economic reforms will remain fragile.

The challenge, therefore, is to move beyond fragmented reform agendas toward a unified national vision—one that is citizen-owned, anchored in a competitive strategy, and designed to raise productivity and living standards. With proper sequencing and strong social protection measures, reforms can stabilize the economy, attract investment, and modernize state institutions. This would lay the groundwork for long-term growth and integration into global markets. However, reforms pushed too quickly, without adequate safeguards or political buy-in, risk triggering social dislocation, political backlash, and an unhealthy dependence on external prescriptions. The real measure of success is not the speed of liberalization but whether reforms improve real incomes, expand exports, and preserve state capacity to guide structural transformation. Ethiopia must strike a careful balance between market efficiency and state responsibility, blending liberalization with strategic state intervention to ensure transformation that is both sustainable and socially equitable.

Preserving sovereignty while keeping finance flowing will require a deliberate counter-strategy rooted in universal rules and outcome-based negotiations. This should begin with a domestic rules-first framework: open contracting, a beneficial ownership registry, independent regulators, and a statutory social floor. By making these rules universal and transparent, Ethiopia can depersonalize external pressures and shift the focus toward results. Conditionalities should be framed around measurable service outcomes—such as reduced customs clearance times, timely VAT refunds, reliable electricity supply, and adequate social transfers—rather than politically loaded benchmarks.

Financing should remain diversified but coordinated. International financial institutions can continue to support social and institutional reforms, while non-Western partners finance commercially viable infrastructure projects—both under common transparency and debt sustainability rules. Debt risks should be managed through caps on collateralized borrowing, full disclosure of contingent liabilities, and annual fiscal risk statements that cover state-owned enterprises and public–private partnerships. In critical sectors such as telecommunications and energy, Ethiopia must safeguard standards interoperability and ensure robust data sovereignty protections through multi-vendor systems. Regionally, reforms should be embedded in African-led frameworks—particularly AU and AfCFTA norms—while leveraging IGAD and COMESA to secure trade routes and regional integration against the pressures of great-power contestation.

Conclusion

Ethiopia's massive macroeconomic reforms represent a historic shift in the country's approach to economic management, marking a bold attempt to transition from a highly state-directed economy toward a more market-oriented system. The government has argued that IMF-backed adjustment programs were a strategic choice to reinforce its reform agenda. Since the 1980s and 1990s, the "Washington Consensus" has provided the dominant framework for such reforms—remaining both influential and controversial. Yet, more than four decades later, the debate over their effectiveness persists, with no clear consensus on whether they foster sustainable growth or entrench vulnerability.

While these reforms open opportunities for stability and modernization, they also carry risks that must be carefully managed. Ethiopia's leadership will need to balance structural adjustments with measures that protect the vulnerable, ensuring that reforms contribute to inclusive and sustainable development. Political and security conditions weigh heavily on the success of economic transformation. Without addressing the root causes of recurring conflicts and instability, the economic program risks being undermined by uncertainty. Building a stable political system and strengthening monetary and fiscal discipline remain critical for preserving investor confidence and sustaining long-term growth.

Crucially, reforms in Ethiopia are not merely technocratic solutions—they are part of the broader political economy of sovereignty and global competition. The challenge for the government lies in resisting externally dictated policy prescriptions, while also avoiding the domestic misuse of reforms as tools for patronage and exclusion. Sequencing reforms in ways that enhance state capacity, strengthen transparency, and safeguard social protections will determine whether they expand Ethiopia's strategic autonomy or deepen its vulnerabilities.

In this sense, economic reform in Ethiopia is inseparable from politics. Reform decisions redistribute resources, power, and opportunities. Liberalization and privatization can create new wealth, new networks of influence, and new hierarchies of power. These dynamics can stabilize the economy and attract investment, but they can also be manipulated to entrench narrow elites through selective access to assets, credit, and contracts. The outcome will hinge less on the technical design of reforms and more on their execution, particularly the degree of transparency, regulatory independence, and the creation of social safety nets.

External actors add another layer of complexity. International financial institutions and Western governments often attach conditionalities that extend beyond economics into governance, democratization, and human rights. At the same time, non-Western powers such as China, Gulf States, Turkey, and Russia offer alternative financing and investment with fewer conditions, giving Ethiopia a broader menu of options but also increasing the risk of being drawn into geopolitical rivalries. Thus, reform becomes both a domestic and international bargaining tool. When external conditionalities intersect with domestic elite capture, reforms can entrench inequality and erode sovereignty. But if Ethiopia manages to strategically leverage competition between external partners while building internal consensus, reforms could expand national autonomy and foster genuine modernization.

The long-term implications are profound. If reforms are seen as benefiting only a narrow political or economic elite, they risk fueling resentment, deepening inequality, and exacerbating existing ethnic and regional divisions. Economic exclusion in Ethiopia's already fractured political landscape could harden fault lines, undermine legitimacy, and even destabilize the reform process itself. Conversely, if reforms are implemented inclusively—protecting vulnerable groups, spreading opportunities more equitably, and reinforcing national cohesion—they can serve as a foundation for both economic renewal and political stability. Ultimately, Ethiopia's reform trajectory will test whether the country can turn structural adjustment into a vehicle for sovereignty and inclusive growth, rather than a Trojan horse for deeper political and social fragility.

Actionable Recommendations

1. Establish a Reform Governance Framework with Transparency and Safeguards: Ethiopia might institutionalize a transparent mechanism to manage privatization, foreign exchange allocation, and large public contracts. This could include independent oversight bodies, regular public reporting, and competitive bidding processes. Such a framework will reduce risks of elite capture, boost investor confidence, and build public legitimacy for reforms.

2. Sequence Reforms to Protect Social Stability: Instead of front-loading austerity measures that might trigger social unrest, Ethiopia could adopt a phased approach. Targeted subsidies for essential goods, social safety nets for vulnerable populations, and job creation programs should accompany market liberalization. This ensures reforms are politically sustainable and do not exacerbate existing social grievances.

3. Diversify Financing Sources Beyond the IMF: While maintaining engagement with the IMF for macroeconomic stabilization, Ethiopia could expand its financing options through the BRICS New Development Bank (NDB), Gulf sovereign wealth funds, and bilateral partners. By diversifying lenders, Ethiopia reduces vulnerability to any one bloc's conditionalities and strengthens its bargaining power in negotiations.

4. Leverage External Rivalries for Domestic Autonomy: Ethiopia can strategically use the competition between Western IFIs and non-Western financiers to secure better terms. For example, it can negotiate IMF support while simultaneously signaling readiness to access BRICS or Gulf funding. This "multi-vector" strategy maximizes room for maneuver and avoids dependency on a single external actor.

5. Build Political Consensus Around Reforms: To prevent reforms from being weaponized in domestic politics, Ethiopia's leadership could foster a cross-party, multi-stakeholder dialogue on the reform trajectory. Involving regional stakeholders, private sector actors, and civil society in consultation mechanisms reduces the risk of reforms being seen as imposed or exclusionary.

6. Align Economic Reform with Conflict Resolution and State-Building: Reforms will not succeed without political stability. The government could consider integrating its economic reform strategy with peacebuilding efforts by addressing root causes of conflict, ensuring equitable regional resource distribution, and creating policies that mitigate displacement or marginalization.

7. Institutionalize Safeguards Against Geopolitical Overreach: Ethiopia could create a high-level economic diplomacy task force to monitor external pressures and negotiate reform-related conditionalities. This task force can ensure that agreements with the IMF, BRICS, or Gulf partners align with Ethiopia's sovereignty, security, and long-term development interests.

8. Invest in State Capacity for Regulation and Implementation: Market reforms require strong regulators to ensure fair competition, prevent monopolies, and oversee financial institutions. Ethiopia could prioritize capacity-building in its central bank, competition authority, and revenue agencies to ensure reforms do not become a free-for-all that destabilizes the economy.